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United States Department of Agriculture

Agricultural Adjustment Administration
Division of Marketing and Marketing Agreements
Dairy Section

The Federal-State Program for the New York Milk Market

An explanation of the background and provisions of the Federal and State orders regulating the handling of milk in the New York metropolitan marketing area.

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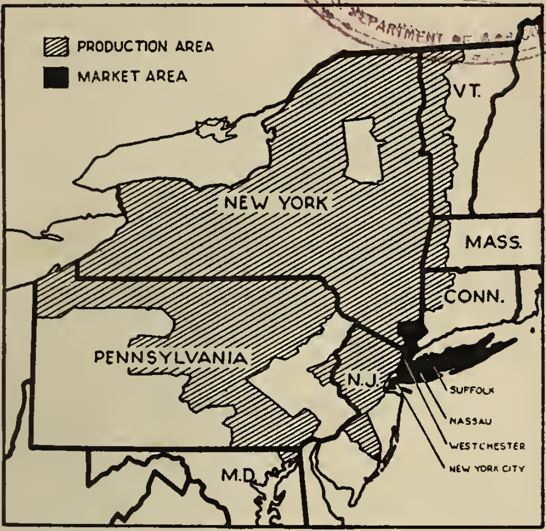

MARKET ADMINISTRATOR

NEW YORK METROPOLITAN MILK MARKETING AREA

95 Madison Avenue, New York, N. Y.

FOR THE PRODUCER

1. Enables each producer to obtain his fair portion of the benefits from the fluid-milk market, and to bear his equitable share of the market's surplus-milk burden.

2. Establishes minimum prices which handlers are required to pay for milk according to its use value.

3. Assures to all producers a uniform rate of payment on milk sold for the marketing area, regardless of the handler to whom the milk was delivered.

4. Encourages the utilization of surplus milk in a manner so as to bring to producers the highest return possible.

5. Provides a market-wide program which promotes cooperation.

FOR THE CONSUMER

1. Promotes the flow of an adequate supply of clean, wholesome milk at all times.

2. Safeguards the interests of the consumer by improving conditions under which milk is marketed.

3. Promotes the sale of milk to consumers at reasonable prices established by the forces of free and open competition.

4. Eliminates the cut-throat tactics of marketing which have menaced the consumer's milk supply.

5. By improving selling conditions and enabling dairy farmers to buy more goods manufactured in the cities, the program helps maintain employment and consumer income.

FOR THE HANDLER

1. Establishes uniform rules under which all handlers buy their milk from producers.

2. Assures to each handler that his cost of milk for a specific use will be the same as that of any other handler in the market similarly situated.

3. Encourages handlers to operate more efficiently.

4. Promotes greater market stability and eliminates cut-throat competition in buying milk from producers.

5. Minimizes speculative activities which result in chaotic marketing conditions.

The Federal-State Program for the New York Milk Market

Federal-State regulation of the handling of milk in the New York metropolitan marketing area became effective September 1, 1938, under complementary orders issued by the Secretary of Agriculture of the United States and the New York State Commissioner of Agriculture and Markets.

The Federal and State orders are similar in their provisions, and make possible a market-wide program under which all handlers operate in buying their milk from producers. This program is designed to:

1. Establish minimum prices which handlers are required to pay for milk according to the use which they make of that milk;
2. Assure to producers a uniform rate of return for their milk regardless of the handler in the market to whom it was sold or the use made of that milk by the individual handler;
3. Assure each producer a fair share of the fluid milk market; and
4. Facilitate the use of surplus milk so that it will bring the highest return to producers.

The Marketing Area

The New York metropolitan milk marketing area under the Federal and State orders includes the city of New York and the counties of Nassau, Suffolk, and Westchester, all in the State of New York. This area is the largest market for fluid milk in the world. An average of more than 13,000,000 pounds of milk a day is delivered by dairy farmers to plants approved by health authorities to ship milk into the New York market. About half of this amount is shipped into the marketing area in fluid form, the other half being used for cream and other dairy products for the market.

More than 10,000,000 people live in the area covered by the Federal-State milk mar-

keting program. Most of the plants which ship milk to supply this population are located from 150 to 350 miles from the marketing area. Some plants are located over 500 miles away.

The vast amount of milk necessary to meet the daily needs of the 10,000,000 people in the marketing area, is produced by approximately 65,000 farmers. About one-fourth of the milk shipped to the New York metropolitan marketing area comes from outside of New York State. About one-third of the New York milk crosses State lines on its way from the country plant to the market. In addition to New York, the principal States which supply the metropolitan marketing area with milk are Pennsylvania, New Jersey, Vermont, Maryland, Connecticut, and Massachusetts.

Demand Forces Give Rise to Problems

Numerous difficulties arise because of the great size of the market and the vast territory covered by the producing area from which the necessary milk supply must be drawn. During the fall and winter months, when milk production is naturally short, it is necessary for the market to reach out to the farthest points of the producing area in order that the total supply of milk may be adequate for the needs of the market. In this distant producing area, located for the most part in northern New York, the climate is severe and there is a great variation in the amount of milk produced during different seasons of the year, late fall and winter production often being about half of that in the spring and summer.

Because of the metropolitan market's demand for their fluid milk during the short period of the year, farmers located at great distances from the market must maintain throughout the year a sufficient number of cows in their herds to produce the amount of milk required. During the spring and summer months these farmers have nearly twice as much milk available as they have during the fall and winter months, but the metropolitan market does not require their milk because the supply nearer the market is also plentiful at that time. Throughout

the year the distant producers must maintain their herds and farms and keep up to standards required by New York health regulations, just as if their milk went to the metropolitan market every day.

Producers Struggled for a Market

This situation, arising as it does out of the metropolitan market's demand for fluid milk during the time of the year when production is naturally down, has forced the distant producer to engage in a constant struggle for a place in the market during the spring and summer months when milk supplies are plentiful. Through this struggle the distant producer has tried to obtain a sustaining share of the market for fluid milk on a year-round basis. On a few occasions the struggle has gone to the extent of milk strikes, accompanied by disorder and the dumping of milk, as in 1933 and 1937. These strikes were costly to dairy farmers, and menaced the milk supply of consumers.

The early efforts of dairy farmers to improve milk marketing conditions and to obtain more equitable treatment in their market are characterized by the organization of cooperatives. This group action to achieve market stability has helped producers to a considerable extent and is now regarded as an integral part of the dairy industry.

Effective as cooperatives were, it soon became evident that measures were needed to supplement the efforts which producers were exerting through their organizations. By 1933 the periodic struggles of producers to hold a share in the New York market were an old story. Other milk markets had experienced similar difficulties.

Sought Help to Supplement Own Efforts

Producers throughout the country sought the aid of their State and Federal Governments in improving milk marketing conditions. Federal help in providing for milk market regulatory programs first came into existence in 1933 under the Agricultural Adjustment Act, the marketing provisions of which were reenacted and amended by the Agricultural Marketing Agreement Act of 1937. Also in 1933, the New York State

Milk Control Act was passed, the first such piece of legislation in the United States. Today, about half the States have State milk regulatory laws in effect.

The New York State Milk Control Act, which was upheld by the United States Supreme Court in 1934, appeared to benefit producers to a large degree in its early years. Handlers of milk in New York, however, soon found that they could evade the effects of the State law by getting their milk supplies from outside of the State. This shift to outside sources of milk reduced the effectiveness of the State law. In the spring of 1937, this milk control measure was not reenacted.

In its place, the Rogers-Allen Act was passed as a New York State law in May 1937. This measure authorizes cooperative associations of producers to bargain collectively with milk distributors. It aims at stabilizing marketing conditions in milk markets of New York State through collective bargaining procedure between organized producers and organized distributors. The act also authorizes the State Commissioner of Agriculture and Markets to issue orders under certain conditions if the bargaining system fails to produce satisfactory results. The orders may fix prices paid by handlers to milk producers in the State.

As soon as the Rogers-Allen Act was passed, groups of producers organized the Metropolitan Cooperative Milk Producers' Bargaining Agency. Nearly 100 different cooperatives having a membership of over 40,000 milk producers became members of the bargaining agency. At the same time handlers organized the New York Metropolitan Milk Distributors' Bargaining Agency to negotiate with the producers' organization.

For a while conditions in the metropolitan New York milk market took on a more orderly aspect. This improvement, however, did not last very long. A considerable number of dairy farmers remained outside of the producers' bargaining agency. Many handlers broke away from the distributors' bargaining agency and were free to buy milk from producers at their own prices, which were less than those negotiated between the two organizations. As a result market conditions once more became chaotic.

Federal-State Program Developed

In an effort to meet these conditions, milk producers started a move to invoke the regulatory features of the Rogers-Allen Act, and at the same time requested the help of the Federal Government in regulating the handling of milk that comes into New York from outside the State. They sought a program to establish uniform rules under which handlers would buy their milk from producers both in and out of the State. Such a program, they felt, would overcome the weaknesses of earlier efforts which were confined to milk produced within the State.

Efforts to develop such a program continued for nearly a year. Through conferences with representatives of producers, consumers, distributors, and representatives of the Agricultural Adjustment Administration and the New York State Department of Agriculture and Markets, a proposed Federal-State program was developed. This proposal was considered at a series of public hearings held in various sections of New York State from May 16 to June 8, 1938. The hearings were conducted jointly by the Secretary of Agriculture and the New York State Commissioner of Agriculture and Markets, and gave producers, consumers, and distributors an opportunity in which to express their views on the proposal.

Principal Provisions

The program which is now in effect in the New York metropolitan milk marketing area incorporates changes and suggestions made by industry spokesmen and others at the public hearings. No changes have been made in the basic idea of the program which in a referendum held before it became effective was supported by better than four out of five producers who voted.

The main provisions of the program govern—

1. The selection of a market administrator by the Secretary of Agriculture and the Commissioner of Agriculture and Markets to administer the program;

2. The classification of milk received from producers at handlers' plants into nine

classes, according to the use made of that milk;

3. The establishment of minimum prices which handlers are required to pay producers for each class of milk;

4. A method for determining uniform prices which handlers are to pay producers through the operation of a market-wide pool to assure each producer his fair share of the fluid milk market; and

5. The filing of periodic reports with the market administrator showing deliveries and tests of milk received from producers and from other sources, and the use made of this milk by handlers. The market administrator is given authority to verify the accuracy of all reports made to him by handlers, and to verify payments made by handlers to producers.

A producer is defined as any person who produces milk which is delivered to a handler at a plant approved by any health authority in the metropolitan marketing area.

A handler is defined as any person who engages in the handling of milk received at a plant approved by any health authority in the metropolitan marketing area. The definition specifically includes any cooperative association that operates plants or any cooperative association which causes milk to be delivered to plants of handlers and collects payments for such milk. The definition specifically excludes those persons who neither receive milk from producers nor handle milk which is sold in the metropolitan marketing area.

Joint State and Federal Administration

The program is administered by a market administrator named by the Secretary of Agriculture and the Commissioner of Agriculture and Markets. Both the Federal and the State orders are administered by the market administrator, thus making it possible for the Federal and State Governments to operate jointly.

The orders provide for the selection of the market administrator, and define his powers and duties. The market administrator is required to furnish a bond to guarantee faithful performance of his duties.

The market administrator has the power to administer the terms and provisions of the Federal and State orders and to receive, investigate, and report complaints of violations.

Among his duties the market administrator is required to keep books and records which will clearly reflect the transactions of his office, furnish such information as the Secretary of Agriculture or the Commissioner of Agriculture and Markets may request, and employ such persons as may be necessary to carry on the functions of his office.

The expense of administering the joint Federal-State program is borne by handlers. Under the orders, each handler is required to pay as his pro rata share of the expense of administering the program not more than 2 cents per hundredweight on that total quantity of milk received from producers at his plant which is sold primarily as fluid milk or fluid cream. The exact amount per hundredweight of milk is determined by the market administrator on the basis of what is necessary for administering the program.

Milk Classified According to Use

The orders provide that all milk received from producers by handlers must be classified according to its use at, or the form in which milk leaves, the plant where first received from producers, with the proviso that if milk is moved as milk from the plant where it was originally received from producers to a second plant outside the marketing area, the classification of such milk at the first plant may be according to its use at the second plant. Any use of milk claimed by a handler is subject to verification by the market administrator.

Milk received at the plants of handlers is classified into nine classes so that payments to producers may be made on the basis of the use value of the milk.

Each class of milk is defined in substance as follows:

Class I milk is defined as milk which leaves the plant as whole milk, chocolate milk, or a whole milk drink, or any milk not so accounted for as to be placed in a class lower than class I.

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Class II–A milk is all milk the butterfat from which leaves a plant as cream which was not subsequently used or sold as frozen cream, made into ice cream, or shipped to markets in any county where there is no New York approved plant.

Class II–B milk is that milk which furnishes butterfat for plain condensed milk and homogenized mixtures (for ice cream).

Class III–A milk is all milk which supplies butterfat in evaporated milk, sweetened condensed milk, milk chocolate, milk powder, malted milk powder, or any cheese other than cream cheese and American Cheddar cheese.

Class III–B milk is milk which supplies butterfat in frozen cream.

Class III–C milk is milk furnishing butterfat for frozen desserts sold outside of New York City.

Class III–D milk is milk furnishing the butterfat for cream sold outside the New York milkshed and the butterfat in cream cheese.

Class IV–A milk is milk which is manufactured into butter.

Class IV–B milk is milk which is manufactured into American cheese.

The nine classifications for milk provided for in the orders follow rather closely the classes used by the State of New York in regulating milk since 1933 and the classes used by a large portion of the market for 10 or more years before that time. These use classifications are made necessary by the large territory of the New York milkshed, the wide variations in conditions of production and climate, the great variety of possible manufacturing outlets for milk at times not needed for Class I or Class II–A uses, and the tremendous volume of milk involved in even small proportionate changes in the sales and production of milk in the shed from day to day, week to week, and month to month. These classes, together with the price applicable to each class, are designed to permit all producers' milk to be absorbed in some channel of use at all times in order that it may be available when needed for Class I and Class II–A uses in the market.

Minimum Price for Each Class of Milk

For each of the nine use classifications there is provided a method which will fix the price of milk in each class for each month. The method used is designed to provide flexibility in the pricing of milk so as to recognize seasonal changes in production, general economic conditions, and the level of dairy prices.

The prices prescribed in the orders are minimum prices based on milk containing 3.5 percent butterfat received from producers or associations of producers at plants in the 201–210-mile zone from New York City. Differentials are provided for milk received at plants in zones nearer or farther than the 201–210-mile zone from New York City.

The orders contain a schedule which prescribes the class I price which handlers are required to pay from April through July and from August through March. The schedule sets $2.20 per hundredweight for the 25–34.9-cent butter price range for the months of April through July, and $2.65 per hundredweight for the 30–39.9-cent butter price range for the months of August through March. This seasonal movement of the class I price is modified by changes in the price of butter, moving up or down by 20 cents per hundredweight for each 5-cent rise or fall in the average of New York 92-score butter prices for a period of 60 days before each month. The following table is contained in the orders and prescribes the butter price range and the class I prices to be paid during the different periods:

Butter price range (cents per pound)	Class I price	
	April through July	August through March
	Dollars per hundredweight	*Dollars per hundredweight*
Under 20	1. 80	2. 05
20 to 24.9	2. 00	2. 25
25 to 29.9	2. 20	2. 45
30 to 34.9	2. 20	2. 65
35 to 39.9	2. 40	2. 65
40 to 44.9	2. 60	2. 85
45 to 49.9	2. 80	3. 05
Over 49.9	3. 00	3. 25

The method for fixing the class II–A price follows along the same lines as that for fixing the class I price, but it is designed to move the class II–A price more nearly in keeping with changes in the prices of butter. This is done by requiring that the butter price range be determined during the 30 days preceding the 25th of the month before the price is to be in effect. In making this determination the average of New York 92-score butter prices is used. The lowest level of class II–A prices in the same butter price range is set for the months of March through July, when production is heaviest, with slight increases for the months of August through October, the highest prices coming during the months of November through February. The following table contained in the orders prescribes the butter price range and the class II–A price for the various periods:

Butter price range (cents per pound)	Class II–A price		
	March through July	August through October	November through February
	Dollars per hundredweight	*Dollars per hundredweight*	*Dollars per hundredweight*
Under 20	1. 30	1. 35	1. 50
20 to 24.9	1. 50	1. 55	1. 70
25 to 29.9	1. 70	1. 75	1. 90
30 to 34.9	1. 85	1. 90	2. 05
35 to 39.9	2. 00	2. 05	2. 20
40 to 44.9	2. 15	2. 20	2. 35
45 to 49.9	2. 30	2. 35	2. 50
Over 49.9	2. 45	2. 50	2. 65

From the 25–29.9-cent butter price level the class II–A price moves down 20 cents, or up 15 cents, for each 5-cent change in the butter price level.

Prices for milk in the lower use classifications are established on a basis so as to absorb all the milk not needed for class I and class II–A purposes. These prices are set up so as to enable the manufacturer of products made from these lower classes of milk to compete without undue advantage or disadvantage with the same products made from milk not qualified for the New York market.

The class III–A milk price under the order is 10 cents higher than the average of prices paid at 18 evaporated milk plants in

the States of Ohio, Michigan, and Wisconsin. The orders contain a provision to prevent the class III–A milk price from being less than that price which the market administrator computes by the following formula: The average price of 92-score butter at wholesale in the Chicago market for the month, plus 30 percent of that average price, times 3.5, plus 7 cents. This formula approximates that contained in the Federal marketing agreement program in effect for the evaporated milk industry.

The class II–B price is 10 cents higher than the class III–A price.

The class IV–A milk price is calculated by the market administrator each month from the average of the highest daily prices of 92-score butter at wholesale in the New York market, deducting 4 cents as allowance for manufacturing costs, adding 20 percent of the remainder, and multiplying by 3.5.

The class IV–A milk price is the basis for the class III–B, III–C, and III–D prices, which each month are respectively 20 cents, 10 cents, and 7½ cents per hundredweight higher than the class IV–A price.

The class IV–B price is determined by the market administrator on the basis of the average of weekly quotations of cheese per pound at Plymouth, Wis., Gouverneur, N. Y., and Cuba, N. Y., deducting 3 cents as an allowance for manufacturing costs, and multiplying by 9.45 a reasonably expected yield of cheese per hundred pounds of 3.5 percent butterfat milk.

A butterfat differential of 4 cents per one-tenth of one percent butterfat content above or below 3.5 percent applies on all class prices except those for class III–A, IV–A, and IV–B. In the case of class III–A, IV–A, and IV–B milk prices, the butterfat differential is in direct ratio to the price of milk of 3.5 percent butterfat content.

Handlers Required to Report

Administration of the order by the market administrator is based largely on periodic reports which handlers are required to make. The market administrator is charged with the duty of promptly verifying all reports, and handlers must, under the order, make available to the market administrator records

and facilities to enable him to verify their reports and to obtain correct figures in case of errors or omissions.

The most important report which handlers must file with the market administrator is the final monthly report which, in addition to considerable detailed information, shows the total quantity of milk and the average butterfat content of the milk received from producers and from other sources, and the utilization of the milk at each plant, together with a complete computation of the sum of money which represents the handlers' net cost of milk on the basis of the 201–210-mile zone.

Upon receipt of reports for a month, the market administrator is required under the orders to audit each report for mathematical correctness and obvious errors. These reports, subject to verification by the market administrator, must be sent to him on the 10th of the month following the month for which the report is made.

The Uniform Price Computation

On the 14th day of the month the market administrator is required to compute the uniform pool price, or blended price, out of all reports in his hands at that time.

For purposes of convenience, the milk of each class to which the minimum prices apply is known as the "net pooled milk." Class I and Class II–A milk which never enters the marketing area is not included in the net pooled milk, and the pool is relieved of a portion of the surplus in relation to the volume of Class I milk sold outside the market. The uniform price is computed by the market administrator upon this net pooled milk in all classes of all handlers.

In computing the uniform pool price from all reports each month, the market administrator is required to deduct payments for services rendered by cooperatives and payments for market services rendered by handlers.

Payments Out of the Pool

Payments for services by cooperatives are made to those cooperative associations which have been determined by the Secretary of

Agriculture and the Commissioner of Agriculture and Markets as having their entire activities under the control of their members and as being able to render service to producers as a whole by facilitating the delivery of milk to persons at the point where it may be used in the highest possible class and by making available to handlers in need of milk, an adequate supply. These payments go to producers' cooperatives which exercise control over milk and route milk into the channels of utilization which net the highest returns to all producers.

Under the orders, any cooperative association of producers may apply for a determination as to its qualifications to receive the cooperative service payment. If the determination is made in favor of the cooperative, the service payment is to be received by the cooperative until it has been disqualified for failure to exercise the authority and to perform the functions upon which the determination was made.

These payments are made at only one of the following rates on net pooled milk dealt with by a cooperative:

One cent per hundredweight of net pooled milk to a cooperative which caused the milk of its members to be delivered to a handler's plant and on which the handler made reports to the market administrator and paid producers as required under the order;

Two and a half cents per hundredweight of net pooled milk to a cooperative which has collected payments for milk delivered to the plant of a handler by its members and which has met its obligations under the order; and

Five cents per hundredweight of net pooled milk to a cooperative which operates plants, is able to take care of all the milk of all its members, and is willing and able to take care of milk from producers who are not members.

Market service payments to handlers are made for facilitating the utilization of milk in a way so as to benefit all producers sharing in the pool.

During any month except November or December one market service payment is made to those handlers who move milk from a plant equipped only for receiving and shipping milk to one equipped for manufacturing when it is impossible to move the milk in fluid form. For moving the milk to the

manufacturing plant the handler receives for that service 23 cents per hundredweight of milk so moved, plus a small additional allowance for hauling. No such payment is made for any month when the manufacturing plant shipped class I milk to the marketing area if both plants are operated by the same handler.

Another market service payment is made during November and December to a handler who moved class I milk from a plant which is primarily a manufacturing plant, and who would be entitled to claim this market service payment. This payment is at the rate of 30 cents per hundredweight of class I milk during these 2 months only, and the manufacturing plant must not have shipped to the marketing area more than 10 percent of its receipts as class I milk nor more than 50 percent as cream during the preceding May and June.

Uniform Pool Prices for Producers

Handlers are required to pay the uniform pool, or blended, price, calculated by the market administrator, to all producers delivering milk during any month unless the handler has received milk and sold it as class I milk outside of the marketing area. In such an instance the handler is required to pay the uniform price to each producer on that part of the milk received which is equal to the proportion of his milk to which minimum prices are applicable. For the remainder of each producer's milk the handler may pay such prices as he sees fit, but is required to furnish the producer with a statement of the percentage of the producer's milk paid for at the uniform price.

Payment of the uniform price is subject to the butterfat differential of 4 cents per hundredweight for each one-tenth of 1 percent butterfat content above or below 3.5 percent in the milk delivered by each producer and to the transportation and location differentials.

The transportation differential scale is that prescribed in the order to apply to class I milk and is based on the railway tariff for the movement of milk in tank cars.

The location differential amounts to 25 cents per hundredweight to producers who

deliver at plants in counties of New York, New Jersey, Connecticut, and Massachusetts, located close to New York City, and separated to a large extent from the rest of the milkshed by mountainous country in which very little, if any, milk is produced. Of this 25 cents paid to producers, the handler is reimbursed 20 cents per hundredweight from the total pool. This leaves a location differential of 5 cents per hundredweight to be paid by the handler.

In addition to the other differentials, handlers are required to pay to producers delivering milk qualified as grade A by the New York City Department of Health premiums according to butterfat content and bacteria count on that amount of milk actually sold in the marketing area as grade A milk. The premiums range from 78 cents for 4 percent milk having less than 10,000 bacteria count down to 5 cents for 3.7 percent milk containing over 25,000 bacteria count.

The Producer Settlement Fund

A producer settlement fund operated by the market administrator is provided for under the orders as a clearing arrangement into which each handler pays the amount by which his net pool obligation is greater than his net pooled milk multiplied by the uniform price, or out of which he is paid the amount by which his net pool obligation is less than his net pooled milk multiplied by the uniform price. Provision is also made for receiving or paying out of the producer settlement fund amounts of money arising out of any errors. Handlers must make payments to producers not later than the 25th day of each month for milk received during the preceding month.

The arrangement which the order prescribes for determining and paying a uniform pool price to producers for milk sold in the marketing area operates under what is commonly termed a market-wide pool plan. Operation of the pool assures all handlers the same cost for milk sold in the marketing area, and for that milk assures payments to all producers at a uniform rate except for the transportation and other differentials provided.

WHAT CAN BE DONE

1. The Federal-State program for the metropolitan New York milk marketing area provides a market-wide program under which all handlers are required to operate in buying milk from producers.

2. It establishes minimum prices which handlers are required to pay producers for milk according to the use made of it.

3. The program is designed to assure to all producers a uniform rate of payment on milk sold for the marketing area.

4. It enables each producer to obtain his fair portion of benefits from the fluid milk market and to bear his equitable share of the market's surplus milk burden.

5. The Federal-State program safeguards the interests of the consumer by stabilizing milk marketing conditions and assuring an adequate supply of wholesome milk which can be sold at reasonable prices.

WHAT CANNOT BE DONE

1. The Federal-State program cannot control production, nor can it regulate dairymen as producers.

2. The program cannot take over the producer's milk-selling job.

3. The program cannot obtain for producers over a period of time more than milk is actually worth in relation to supply and demand conditions.

4. Milk prices to consumers cannot be fixed nor margins of handlers protected.

5. The Federal-State program cannot solve all of the problems in the market.

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